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MAIL MANAGEMENT
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**BEFORE THE**
**SURFACE TRANSPORTATION BOARD**

**STB Ex Parte No. 582**

**PUBLIC VIEWS ON MAJOR RAIL CONSOLIDATIONS**

**REVISED COMMENTS OF**
**THE GREATER HOUSTON PARTNERSHIP**

The Greater Houston Partnership is Houston's principal business organization and is dedicated to building prosperity in the Houston region. The Partnership has 2,400 members from virtually every industry sector throughout the eight-county Houston region. The Partnership's Board of Directors is composed of 112 corporate CEO's of organizations in the Houston region. Partnership members employ almost 600,000 people, which is one out of every three employees in the region.

The Partnership applauds the Surface Transportation Board (STB) for its decision to take a longer view of the potential impacts of mergers in the railroad industry. The Board's decision to include consideration of other interested parties likely reactions to possible rail mergers is an improvement over the Board's traditional "one case at a time" approach. This longer view will also allow the STB to more fully explore the impacts of a merger on competition, rates and service levels and to consider imposing merger conditions that could assure the preservation and creation of effective rail-to-rail competition.

This resolution is not a position statement on any proposed merger, but rather a set of recommendations related to the criteria by which any proposed future rail merger is considered. The Partnership believes that continued investments in the Houston region by strong, financially viable railroad companies are essential to the continued competitiveness of the Houston region and its industrial and commercial components. The Partnership does stress the importance of a comprehensive review by the STB of all facets of proposed mergers. Particular attention should be placed on the level of rail competition after rail mergers are consummated.

## BACKGROUND

The following principles were adopted by the Greater Houston Partnership Board of Directors in 1998 during the freight rail crisis involving the Union Pacific / Southern Pacific merger and have been updated to reflect current conditions. Having learned from experience how severely the region's economy can be impacted by railroad operating problems, the Partnership again emphasizes its belief that Houston's rail system performance must be in the top tier of United States cities.

1. To be in the top tier of cities, both service and rates must be fully competitive for Houston's port and local industries to compete effectively in domestic and international markets. In the U.S. economy, vigorous competition among competitors has been proven to be an effective means of achieving good service at fair prices, while ensuring profitability for the competitors.

2. The Partnership Board prefers that the private sector rectify non-competitive situations through equitable compensation. However, the Partnership Board realizes that federal regulations can constitute fundamental roadblocks in competitive situations and changing them, if necessary, should be given consideration by the STB in its evaluation of proposed mergers.

## PARTNERSHIP CONCERNS

1. That the criteria by which past mergers have been evaluated may not adequately consider the public interest issues raised by a highly consolidated railroad industry. The longer view being taken by the STB will improve the evaluation of the public interest in rail mergers.

2. That it would be poor public policy to permit additional railroad mergers without genuine consideration of the rail competitive realities faced by major industries, and individual shippers in those industries, or without serious evaluation of the impacts of a proposed rail merger on economic activity and economic growth in major commercial and industrial regions of the country.

3. That competition may be diminished. The Partnership supports rail competition to the greatest extent achievable in future railroad mergers because attitudes fostered through competition for market share benefit all shippers. In a competitive environment, railroads strive to satisfy their customers by putting their full creative energies into providing

consistent, reliable service and continuously reducing costs, thus benefiting overall commerce and attracting new business.

4. That additional consolidation of the railroad industry may diminish customer-responsive train scheduling, effective customer service, and reasonable rates. Shippers could face a railroad industry with service inflexibility and lacking in creativity and innovation.

5. That future mergers could negatively impact the Port of Houston, which provides the nucleus for industrial activity in the Houston region. The citizens of Houston and Harris County have made substantial investments in port facilities, as have the numerous industries located along the Houston Ship Channel, to support economic activity and job growth in the region. The Port of Houston is not to be disadvantaged relative to the Port of New Orleans because of future mergers.

6. That future consolidation of the railroad industry may begin to create "fortress hubs" reminiscent of the airline consolidation of the last fifteen years. Characteristics of the "fortress hubs" include:
   - diminished service,
   - increased costs, and
   - lack of competition.

The Partnership recommends that the criteria by which rail mergers are evaluated be changed to reflect the realities of competition in a highly concentrated railroad industry. The Partnership recommends that there be no creation or extension of bottlenecks. The Partnership believes that BNSF's and CN's recent joint statement that existing gateways will remain open after the proposed combination and that a rail alternative will be made available for those shippers who otherwise would have one rather than two serving railroads after the combination is only a first step. Keeping gateways physically open is not enough. The pricing of service at those gateways and the rates for rail alternatives will be critical in determining whether these proposals will provide effective economic alternatives for rail shippers.

The Partnership supports competition, but would oppose any re-regulatory actions by the STB that would restrict railroads' cash flow and impair the railroads' ability to provide infrastructure improvements, which would damage not only the railroads but also the communities they serve.

The Partnership recommends that the following criteria, designed to assure that shippers have a more easily attainable access to competitive rail service, be adopted by the STB. Future criteria should include:

**Competitive Access**

- Rail shippers at major U.S. ports and metropolitan areas should have access to at least two major, line-haul railroads.

- Competitive access should be provided while respecting rail carriers' property rights.

**Competitive Issues**

- Neither new bottlenecks nor the extension of existing bottlenecks should be allowed. Not only should existing gateways remain open, but the rates offered at those gateways should assure that the competing rail service is an effective economic alternative for the shippers.

Greater Houston Partnership March 7, 2000

## Resolution of the Board of Directors
## Competition in Houston Freight Rail Service

The Partnership applauds the Surface Transportation Board (STB) for its decision to take a longer view of the potential impacts of mergers in the railroad industry. The Board's decision to include consideration of other interested parties likely reactions to possible rail mergers is an improvement over the Board's traditional "one case at a time" approach. This longer view will also allow the STB to more fully explore the impacts of a merger on competition, rates and service levels and to consider imposing merger conditions that could assure the preservation and creation of effective rail-to-rail competition.

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**PARTNERSHIP CONCERNS**

1. That the criteria by which past mergers have been evaluated may not adequately consider the public interest issues raised by a highly consolidated railroad industry. The longer view being taken by the STB will improve the evaluation of the public interest in rail mergers.

2. That it would be poor public policy to permit additional railroad mergers without genuine consideration of the rail competitive realities faced by major industries, and individual shippers in those industries, or without serious evaluation of the impacts of a proposed rail merger on economic activity and economic growth in major commercial and industrial regions of the country.

3. That competition may be diminished. The Partnership supports rail competition to the greatest extent achievable in future railroad mergers because attitudes fostered through competition for market share benefit all shippers. In a competitive environment, railroads strive to satisfy their customers by putting their full creative energies into providing consistent, reliable service and continuously reducing costs, thus benefiting overall commerce and attracting new business.

4. That additional consolidation of the railroad industry may diminish customer-responsive train scheduling, effective customer service, and reasonable rates. Shippers could face a railroad industry with service inflexibility and lacking in creativity and innovation.

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**RECOMMENDATION**

The Partnership recommends that the criteria by which rail mergers are evaluated be changed to reflect the realities of competition in a highly concentrated railroad industry. The Partnership recommends that there be no creation or extension of bottlenecks. The Partnership believes that BNSF's and CN's recent joint statement that existing gateways will remain open after the proposed combination and that a rail alternative will be made available for those shippers who otherwise would have one rather than two serving railroads after the combination is only a first step. Keeping gateways physically open is not enough. The pricing of service at those gateways and the rates for rail alternatives will be critical in determining whether these proposals will provide effective economic alternatives for rail shippers.

The Partnership supports competition, but would oppose any re-regulatory actions by the STB that would restrict railroads' cash flow and impair the railroads' ability to provide infrastructure improvements, which would damage not only the railroads but also the communities they serve.

The Partnership recommends that the following criteria, designed to assure that shippers have a more easily attainable access to competitive rail service, be adopted by the STB. Future criteria should include:

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James R. Royer, Chairman

Jim C. Kollaer, President & CEO

**ABSTAIN**

R. Bruce LaBoon, Secretary

MEMORANDUM

**DATE:** March 7, 2000

**TO:** Jim Royer, Chairman
Board of Directors

**FROM:** Richard Everett, Chairman
Transportation and Infrastructure Advisory Committee

**SUBJECT:** Resolution stating position on major freight rail mergers

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**IMPLEMENTATION**

Communicate this position statement to the Surface Transportation STB at the Public Hearing on *Major Rail Consolidations and The Present and Future Structure of the North American Rail Industry* on March 7-10, 2000 and to the greater Houston area congressional delegation.

**RESOURCES REQUIRED**

**This position can be implemented within current budgetary constraints.**